

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6660**

**BILL NUMBER:** SB 333

**DATE PREPARED:** Feb 12, 2001

**BILL AMENDED:** Feb 12, 2001

**SUBJECT:** Capital Investment Tax Credit.

**FISCAL ANALYST:** Brian Tabor

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**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State

STATE IMPACT	FY 2001	FY 2002	FY 2003
State Revenues		(20,000,000)	(20,000,000)
State Expenditures			
Net Increase (Decrease)		(20,000,000)	(20,000,000)

**Summary of Legislation:** (Amended) This bill provides a credit against state tax liability for certain qualified capital investments made by a taxpayer. It provides that the amount of the credit is equal to either 6% or 12% (if the investment is made in a "distressed area") of the difference between the amount of the taxpayer's qualified investment and the amount of the taxpayer's average annual expenditure in Indiana during the previous three years for similar capital investments.

The bill specifies that a taxpayer's maximum net qualified investment that is eligible for the credit may not exceed \$125,000,000 and that the amount of credits allowed in any state fiscal year may not exceed \$20,000,000. It also provides that the amount of tax credits allowed for qualified investments in any one county may not exceed \$2,000,000 in any state fiscal year. The bill further requires the Department of Commerce to certify the investments as being eligible for the credit.

**Effective Date:** January 1, 2001 (retroactive).

**Explanation of State Expenditures:** This bill creates the Capital Investment Tax Credit and would require the Indiana Department of Commerce (IDOC) to adopt rules and review notices submitted by companies intending to claim this credit. The IDOC would then inform the Department of State Revenue (DOR) whether or not the company is entitled to the credit. The additional expenses and demands associated with this

proposal ultimately depend on the number of applicants, however, it is expected that the IDOC could absorb the impact given its existing budget and resources. According to State Department of Personnel information, the Lieutenant Governor's Office had 35 vacant full-time positions as of December 2000.

The DOR would have to adopt rules and develop new forms for the reporting of this new credit but would be able to absorb any related expenses of processing, printing, and programming within its current budget.

**Explanation of State Revenues:** (Revised) *The Capital Investment Tax Credit could reduce state tax revenues by as much as \$20 M each year beginning in FY 2002.* This bill creates a credit for companies making certain qualified investments in Indiana provided that the average wage paid to employees exceeds the average wage in the county where the investment is made. Qualified investments would include the purchase of new manufacturing equipment, on-site infrastructure improvements, and other expenditures outlined in the bill. The credit would be based on the lesser of: (1) \$125 M; or (2) the qualified investment made in a taxable year minus the average annual expenditures for similar investments over the preceding three years. The result of this calculation would then be multiplied by either 6% or 12% to produce the actual amount of the credit. The total credit would not be taken at once, but would be divided equally over seven years, beginning in the year in which it is granted.

When a qualified investment is not made in a distressed area, the lower 6% credit adjustment would be applied. If the qualified investment is made in a distressed area, the 12% adjustment would then be used. A distressed area is defined in the bill as a local unit which meets any of the following descriptions:

- (1) the county has fewer than 55,000 residents (see below for a list);
- (2) the town, city, or county has a five-year average unemployment rate more than twice the national average during the same period; or
- (3) at least 20% of the income of the town, city, or county's population is below the federal non-farm poverty level.

*According to the 1990 decennial US census, these Indiana counties had a population under 55,000: Adams, Benton, Blackford, Boone, Brown, Carroll, Cass, Clay, Clinton, Crawford, Daviess, Dearborn, Decatur, Dekalb, Dubois, Fayette, Fountain, Franklin, Fulton, Gibson, Greene, Hancock, Harrison, Henry, Huntington, Jackson, Jasper, Jay, Jefferson, Jennings, Knox, Lagrange, Lawrence, Marshall, Martin, Miami, Montgomery, Newton, Noble, Ohio, Orange, Owen, Parke, Perry, Pike, Posey, Pulaski, Putnam, Randolph, Ripley, Rush, Scott, Shelby, Spencer, Starke, Steuben, Sullivan, Switzerland, Tipton, Union, Vermillion, Wabash, Warren, Warrick, Washington, Wells, White, and Whitley.*

*Example of tax credit:* If a company's average investment from 1998 through 2000 were \$1 M and the firm made a qualified investment of \$1.5 M in 2001, the credit adjustment would be applied to the difference, or \$500,000. If the investment was made in a distressed area, the available credit would be \$60,000 (\$500,000 multiplied by 12%). One-seventh of the total, or about \$8,571, could then be claimed by the taxpayer each year from FY 2002 to FY 2008. If the investment was not in a distressed area, the total credit would be \$30,000 with an annual impact of \$4,286 for seven fiscal years (excluding any amounts carried forward).

This credit could be taken against a taxpayer's liability under the Gross Income Tax, the Adjusted Gross Income Tax, the Supplemental Net Income Tax, the Bank Tax, the Savings and Loan Association Tax, the Insurance Premium Tax, and the Financial Institutions Tax. Revenue from these taxes is deposited in the General Fund and the Property Tax Replacement Fund. If a pass-through entity without state tax liability is entitled to a credit, a shareholder, partner, or a member of the entity may receive a credit equal to the amount

determined for the entity multiplied by that person's share of distributive income.

The aggregate amount of credits allowed in any fiscal year may not exceed \$20 M, and no more than \$2 M of the statewide total can be awarded for qualified investments in a single county. If the credit exceeds a taxpayer's liability in a single year, the excess may be carried forward for up to three consecutive years. No carrybacks or refunds would be allowed. As this credit is retroactive to January 1, 2001, the first year of state impact would be FY 2002.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Indiana Department of Commerce, Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** US Census population data.